

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

CHILE

PUBLIC BUILDINGS MANAGEMENT PROGRAM

(CH-L1006)

TECHNICAL COOPERATION LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE TECHNICAL FILES

Preparation:

Díaz, Carlos. *Registro Contable de la Edificación Pública* [Public Buildings Accounting Records]. Final Report. May 2004.

Ducci, Jorge. *Evaluación Económica del Programa de Gestión de la Edificación Pública* [Economic Assessment of the Public Buildings Management Program]. Final Report. June 2004.

Morales, Rene. *Propuesta para el Diseño e Implantación de un Sistema de Registro Patrimonial de la Edificación Pública* [Proposal for the Design and Implementation of a Property Registry for Public Buildings]. May 2004.

Sur Profesionales Consultores. *Diagnóstico de la Gestión de la Edificación Pública en Chile. Informe Final* [Diagnostic Assessment of Public Buildings Management in Chile]. September 2003.

Urban Institute. *Mejores Prácticas Internacionales en la Administración de Inmuebles Públicos y su Aplicación al Caso de Chile*. [International Best Practices in Public Buildings Management and their Application to Chile]. Final Report. Volumes 1, 2, and 3. June 2003.

Execution:

Program Operating Regulations. Version of 14 July 2004.

ABBREVIATIONS

DIPRES	Dirección de Presupuesto [Budget Division]
DU	Development unit
MBN	Ministry of National Assets
MIDEPLAN	Ministry of Planning
MOPTT	Ministry of Public Works, Transportation, and Telecommunications
PCU	Program coordinating unit
PEB	Program executive board
PROPEF	Project Preparation and Execution Facility
SIGFE	Sistema de Información para la Gestión Financiera del Estado [State Financial Management Information System]



CHILE

IDB LOANS APPROVED AS OF JUNE 30, 2004

	US\$Thousand	Percent
TOTAL APPROVED	5,024,991	
DISBURSED	4,754,592	94.61 %
UNDISBURSED BALANCE	270,398	5.38 %
CANCELATIONS	974,279	19.38 %
PRINCIPAL COLLECTED	4,236,148	84.30 %
APPROVED BY FUND		
ORDINARY CAPITAL	4,777,882	95.08 %
FUND FOR SPECIAL OPERATIONS	204,126	4.06 %
OTHER FUNDS	42,982	0.85 %
OUTSTANDING DEBT BALANCE	518,445	
ORDINARY CAPITAL	514,152	99.17 %
FUND FOR SPECIAL OPERATIONS	3,338	0.64 %
OTHER FUNDS	955	0.18 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	954,954	19.00 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	723,548	14.39 %
ENERGY	1,124,693	22.38 %
TRANSPORTATION AND COMMUNICATIONS	787,853	15.67 %
EDUCATION	41,284	0.82 %
HEALTH AND SANITATION	197,020	3.92 %
ENVIRONMENT	2,751	0.05 %
URBAN DEVELOPMENT	521,872	10.38 %
SOCIAL INVESTMENT AND MICROENTERPRISE	124,978	2.48 %
REFORM AND PUBLIC SECTOR MODERNIZATION	353,977	7.04 %
EXPORT FINANCING	0	0.00 %
PREINVESTMENT AND OTHER	0	0.00 %

* Net of cancellations with monetary adjustments and export financing loan collections.



CHILE

STATUS OF LOANS IN EXECUTION AS OF JUNE 30, 2004

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF LOANS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
2000 - 2001	4	440,232	239,866	54.49 %
2002 - 2003	4	74,959	3,259	4.35 %
<u>PRIVATE SECTOR</u>				
2002 - 2003	1	7,000	0	0.00 %
TOTAL	9	\$522,191	\$243,125	46.56 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Chile

Tentative Lending Program

2004

Project Number	Project Name	IDB US\$ Millions	Status
CH1007	FEP:L1005 Innovative Interventions for Older Adults Program	0.3	APPROVED
CH1005	Innovative Interventions for Older Adults	7.0	
CH1006	Public Building Management	3.5	
CH1001	Strengthening of Digital InformationStrategy	15.9	
Total - A : 4 Projects		26.7	
* CH1003	Ruta 60 toll road	70.0	
Total - B : 1 Projects		70.0	
TOTAL 2004 : 5 Projects		96.7	

2005

Project Number	Project Name	IDB US\$ Millions	Status
CH1004	Urban Renewal and Development Program	30.0	
Total - A : 1 Projects		30.0	
TOTAL - 2005 : 1 Projects		30.0	
Total Private Sector 2004 - 2005		70.0	
Total Regular Program 2004 - 2005		56.7	

* Private Sector Project

**TECHNICAL COOPERATION LOAN
PUBLIC BUILDINGS MANAGEMENT PROGRAM
(CH-L1006)**

EXECUTIVE SUMMARY

Borrower:	Republic of Chile	
Executing agency:	Ministry of Finance through the Budget Division (DIPRES)	
Amount and source:	IDB (OC):	US\$3 million
	Local:	US\$1 million
	Total:	US\$4 million
Financial terms and conditions:	Amortization period:	15 years
	Grace period:	3.5 years
	Disbursement period:	3.5 years
	Interest rate:	LIBOR-based
	Inspection and supervision:	0%
	Credit fee:	0.25%
	Currency:	U.S. dollar, Single Currency Facility
	<p>The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.¹</p>	
Objectives:	<p>The goal of the program is to make the central government's management of public buildings more efficient. To achieve this goal, the program's objectives are to design and implement mechanisms aimed at establishing incentives for central government agencies to more efficiently manage the public buildings used for the functions of government.</p>	

¹ In no case will the inspection and supervision fee exceed, in a given six-month period, the amount that would result from dividing 1% of the loan amount by the number of six-month periods in the original disbursement period.

Description: To achieve its objectives, the program will finance three components: (i) economic management model for public buildings; (ii) public buildings inventory; and (iii) studies for the regulatory and institutional framework. Program administration, monitoring, and evaluation will also be financed.

1. Economic management model for public buildings (US\$600,000)

The objective of the component is to establish incentives to promote more rational management of public buildings. The program will finance the introduction of a system for allocating the costs related to the use of public buildings to all central government agencies and the application of a public buildings management model in three pilot agencies.

The management model is based on incentive mechanisms for the participating agencies that use public buildings and is linked to a system of management indicators that measure efficiency in the use of the buildings.

To meet its objectives, the component will finance consulting services to support the following main activities: (i) formulation of the policy on incentives for public building management and analysis of the fiscal impact; (ii) establishment of the methodology for allocating costs and identification of management indicators and performance standards; (iii) implementation of incentives in the pilot institutions; (iv) evaluation of results of the pilot experience and final design of the model; (v) gradual application of the incentive system to the other central government agencies; (vi) risk analysis and definition of a strategy to insure public buildings; and (vii) dissemination of information and training for employees of DIPRES and of the other central government agencies.

2. Public buildings inventory (US\$1.7 million)

The objective of the component is to develop a public buildings inventory that will provide information for efficient management of the buildings by central government agencies, consolidate information for the various public and private stakeholders, and expeditiously provide transparent and reliable information to the citizenry. The inventory will feed the fixed assets auxiliary system of the Sistema de Información para la Gestión Financiera del Estado [State Financial Management Information System] (SIGFE), while maintaining decentralized operation and providing centralized technical and financial data to allow for the monitoring of public buildings management indicators. To meet this objective, consulting services

will be financed for the following main activities: (i) definition of the data fields for the SIGFE auxiliary system for fixed assets; (ii) establishment of the public buildings inventory; (iii) transfer of data from the inventory to the SIGFE auxiliary system or development of an auxiliary system; and (iv) development of procedures manuals for updating information related to public buildings and training of central government agency employees.

3. Studies for the regulatory and institutional framework (US\$700,000)

The component's objectives are to: (i) conduct the studies and activities necessary for the design of a suitable regulatory and institutional framework for the efficient management of public buildings; and (ii) implement a plan for building consensus on the program's initiatives with agencies that make up the sector and disseminating information on them. This component will finance: (i) studies on the legal system for central government properties, institutional options for management, and the legal, regulatory, and systems tools needed for their implementation; (ii) missions to countries that have developed best practices on the subject of property management; and (iii) workshops to disseminate the proposals analyzed and to train employees.

The Bank's country and sector strategy:

The Bank's strategy with Chile is consistent with the government's program. Its main objectives are to help boost the country's competitiveness; enhance social and regional equity; improve the population's quality of life, with emphasis on the most vulnerable groups; and modernize the workings of government, including strengthening ties between civil society, the State, and the private sector. The proposed operation is consistent with the aforementioned strategy since it will help improve the quality and efficiency of public buildings management in Chile by introducing management tools, improving information, and putting forward proposals for revision of the institutional and regulatory framework. The Bank's support for the country in this area will make it possible to draw on the most advanced international experience on the subject of public assets and to develop a methodology for intervention that may be useful to other countries in the region (see paragraph 1.30).

Coordination with other official development institutions:

The World Bank is partially financing the public expenditure management project, with a loan in the amount of US\$23 million approved in 2002 that is being executed by the Ministry of Finance. One of the main activities financed by the program is the design and implementation of an integrated financial management system, SIGFE, at all 171 centralized and decentralized government agencies by 2005. This program will provide the inputs for SIGFE's fixed

assets module, by financing the establishment of an inventory of public buildings and including information in addition to financial data, to make it possible to monitor indicators for public buildings management (see paragraphs 1.31 and 1.32).

Environmental and social review:

The program is not expected to have negative environmental or social impacts. On the contrary, the program will have the following positive impacts: (i) it will support the development of standards for public buildings in the third component of the program, promoting improvement in the physical facilities and rationalization of spending on maintenance, including power and water consumption; and (ii) an insurance system for public buildings will be considered under the first component of the program, to identify the main risks affecting public buildings, size the level of need for contribution to the system, and define the risk management strategy (see paragraph 4.8).

Benefits:

Central government agencies will be the main beneficiaries of the program, as they will acquire the tools to rationalize the use and management of public buildings (see paragraph 4.10).

The central government will have updated and pertinent information for decision-making on public building use. The development of management indicators and the use of incentives will promote more rational management of these assets. Lastly, the government will have a plan built on consensus to create a new institutional and regulatory framework and rationalize the properties portfolio. All these tools will contribute to a more efficient use of the central government's public buildings (see paragraph 4.11).

Risks:

The team has identified three risks for program execution. The first risk is that the government departments may not commit to the objectives of improving building management. Although this is a small risk in view of the departments' 10 years of experience with the management by results control system, this will be a new area of management and there could be resistance to the introduction of new methods for managing building use. This risk will be mitigated through the introduction of incentives to reward efficient building management and through the ongoing provision of information and consensus-building around program activities. Moreover, the leadership at the Finance Ministry in this process is an important guarantee for participation by all the institutions (see paragraph 4.12).

A second risk for the operation is the relationship between SIGFE and the public buildings inventory financed under this program. The proposed program is expected to develop a public buildings inventory that will serve as input for the SIGFE fixed assets module, including data fields that were not anticipated and ensuring the suitable and

pertinent transfer of data, which will require close coordination in the execution of both programs. This is not expected to cause a problem, since both programs are being executed by the same agency and SIGFE is on schedule. However, if special circumstances delay execution of SIGFE and the inclusion of data fields in the fixed assets auxiliary system cannot be ensured, the program will develop an independent system with an interface that will migrate the data once SIGFE is up and running (see paragraph 4.13).

The third special area regarding long-term sustainability of the program's proposals is the risk that the reforms will be limited to the financial/budget area and will not extend to the regulatory and institutional framework reforms required over the long haul. For this reason, the program includes a component under which institutional and regulatory options will be studied and a process will be initiated for the main institutions to work together to develop a consensus-based plan for rationalizing public buildings (see paragraph 4.14).

Special contractual clauses:

The following conditions precedent to the first disbursement will apply: (i) the executive director of the program will be designated and the administrative-financial and building management specialists of the program coordinating unit (PCU) will be hired; and (ii) the executing agency will bring the Operating Regulations into force, as agreed upon with the Bank (see paragraphs 3.3 and 3.5).

A special condition for execution will be the presentation, within 12 months of the entry into force of the contract, of a report identifying the three pilot agencies to which the new economic management model will be applied will be. The report will include benchmarks for the management indicators, to be agreed upon with the Bank, for these pilot agencies (see paragraph 3.7).

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Exceptions to Bank policy:

None.

Procurement:

The selection and contracting of consulting services and procurement of goods anticipated in the program will be carried out in accordance with the Bank's standard procedures in this area. International competitive bidding will be required for procurement of goods involving amounts equal to or above US\$350,000. International open calls for proposals will be used for the procurement of consulting services the value of which is equal to or exceeds US\$200,000.

Consulting services will be selected and engaged in accordance with the Bank's procedures as spelled out in document GN-2220-10. The program does not call for the financing of works. When the services of individual consultants involve amounts of up to US\$25,000 and those of consulting firms, up to US\$50,000, the Bank will conduct reviews of such procurement and disbursements for these contracts on an ex post basis, after three bid processes of each type have been conducted (see paragraphs 3.14 and 3.15).

I. FRAME OF REFERENCE

A. Diagnostic assessment of public buildings

- 1.1 The Chilean central government uses approximately 4,000 buildings with a total surface area of some two million square meters to perform its functions.¹ Slightly less than half of the area of these buildings is located in the Santiago metropolitan region and the rest is spread over the country's other 12 regions. The commercial value of this inventory of buildings is on the order of US\$1 billion, according to preliminary estimates. Table I-1 shows the distribution of these buildings among the country's regions.

Table I-1
Distribution of public buildings by region, 1994

Region	Surface		Buildings	
	m2	%	Units	%
I	102,645	5.0	342	8.3
II	58,891	2.9	151	3.6
III	31,127	1.5	134	3.2
IV	90,468	4.4	220	5.3
V	215,266	10.6	589	14.2
VI	59,290	2.9	246	5.9
VII	178,837	8.8	338	8.2
VIII	101,264	5.0	542	13.1
IX	105,670	5.2	321	7.8
X	159,861	7.8	493	11.9
XI	18,626	0.9	88	2.1
XII	55,675	2.7	150	3.6
Metro region	860,476	42.2	525	12.7
TOTAL	2,038,096	100.0	4,139	100.0

Source: Ministry of Public Works, Architecture Division. *Cadastral of Public Buildings*, 1994.

- 1.2 The central government allocates a significant quantity of resources for the provision and use of public buildings.² From 1998 to 2002, the central government spent an average of US\$30 million per year on building maintenance and repair, which represents 4.8% of the public sector's current expenditures. Building leasing expenditures have averaged US\$25 million per year, an amount that increased by over 30% in real terms from 1998 to 2002, from 3.1% of current expenditures to

¹ For purposes of this assessment, "central government" will be understood as centralized agencies of the government; "public buildings" will be understood as those buildings used for government functions (excluding lots or other property used for purposes other than that indicated), whether the buildings are assigned under the national budget ("State-owned"), are owned by agencies with their own assets ("agency-owned"), or are leased from private owners.

² The analysis of spending on the provision and use of public buildings used the budget execution data of the central government—excluding the Ministry of Defense.

4.6%. Management of these assets has not been included in the country's modernization of the State efforts. This program seeks to help overcome the inefficiencies that persist in their use and financing.

1. Characteristics and use of public buildings

- 1.3 A cadastral survey for the municipality of Santiago, conducted in 2001 by the Ministry of Public Works, illuminates some of the characteristics of public buildings for a sample of central government agencies.
- 1.4 In the municipality of Santiago, three ministries occupy some 60% of the buildings' surface area: Public Works, Health, and Housing and Urban Development. The Ministries of the Interior, Agriculture, Transportation and Telecommunications, and Planning and Cooperation occupy some 30% of the area. The Office of the President, the Secretary General of the Government, and the Secretary General of the Office of the President occupy the remaining 10%. Together, these ministries occupy an area of 365,000 m² in the municipality of Santiago, a sample that represents 18% of the total surface area of central government public buildings.
- 1.5 Another noteworthy aspect refers to the uses of the public buildings area. Some 20% of the total surface area was intended for storerooms, parking, and archives (see Table I-2), which seems like too much considering that most of these buildings are located in sectors where the value per square meter is rather high. The use of these buildings could therefore be rationalized, by reevaluating the need for buildings used for activities that are not high priority and relocating when the functions do not require such a central location.

Table I-2
Distribution of public buildings by type of use
(% of surface area, sample of 10 public agencies, Municipality of Santiago, 2001)

Offices	64.2%
Lots/Parking	10.6%
Storerooms/archives	8.5%
Sports facilities	6.0%
Laboratory	3.6%
Wellbeing (includes guesthouses, nursery schools, among others)	1.9%
Food service (kitchens, lunchrooms, canteens/coffee shops)	1.5%
Services	0.6%
Customer service areas	0.3%
Library	0.3%
Other	2.5%

Source: Ministry of Public Works, Update of Cadastre of Public Buildings for a sample of 10 public agencies in the municipality of Santiago, 2001.

- 1.6 The prevailing form of tenure of the buildings is ownership (owned by the government or by institutions with their own assets) and assignment (owned by the

government and assigned to a government agency free of charge), although there is a considerable and growing percentage of privately-owned leased space. The percentage of leased property varies significantly from ministry to ministry. In the cases of Transportation and Telecommunications and Agriculture, for example, only 17% and 20% of the properties are leased, while with Planning and the Secretary General of the Office of the President, 68% and 87% of the property is leased, respectively. It is worth bearing in mind that there is a lack of clarity regarding the definitions for identifying building tenure. For example, many institutions find it difficult to distinguish between buildings owned by the government and those owned by agencies with their own assets. This lack of clarity reflects the need to have an inventory that specifies the form of tenure.

- 1.7 With an occupation density of 16 m² per person, built space is more efficiently used in leased buildings. For buildings owned by agencies with own assets ("agency-owned") and buildings assigned under the national budget ("State-owned"), the density is as much as 35 m² and 22 m² per person, respectively (see Table I-3). This can be read two ways. On the one hand, it shows that charging a price for the use of the buildings (as in leasing) leads to greater rationalization in the use of space. On the other, since most State- and agency-owned buildings were built over 50 years ago, the data reflects the fact that the technology and organization standards for workspace used for these buildings are obsolete and impede more efficient occupation of the space.

Table I-3
Tenure and occupation density
(sample of 10 public agencies, municipality of Santiago, 2001)

Tenure	Surface m²	People	m²/person
Agency-owned	192,216	5,393	35.6
State-owned	154,882	6,961	22.2
Leased	69,451	4,205	16.5

Source: Ministry of Public Works, Update of Public Buildings Cadastre for a sample of 10 public agencies in the municipality of Santiago, 2001.

2. Institutional and legal framework

- 1.8 Pursuant to national legislation, financial and budget decisions on the purchase, sale, rehabilitation, maintenance, and leasing of public buildings are the responsibility of the Budget Division (DIPRES) in the Ministry of Finance. This applies to all government institutions, those at the central level as well as those with own assets.³

³ There are some exceptions, such as the Banco del Estado de Chile and Televisión Nacional de Chile.

- 1.9 The Ministry of National Assets (MBN) is the body responsible for administrative transactions involving the State-owned buildings (assigned under the budget) and, in general, all institutions and government units that lack own assets. The legal framework for these functions is set out in Decree-Law 1,939 of 1977, which sets out the rules for procurement, management, and disposal of State assets, and in the organic statutes of the MBN. In general, this legal framework lays down rules for the administrative procedures related to procurement, management, and disposal of assets and does not adhere to aspects of economic efficiency in the management of these immovable assets.
- 1.10 The MBN uses two main instruments for building management: direct administration of the assets and assignment. Assignment is the transfer, free of charge and for an indefinite period, of one or more assets to an institution that requests them in order to fulfill its functions. Assignment is only available to government agencies, the Judiciary, units of the National Congress, and the Office of the Comptroller General. From the time of the assignment, all expenditures related to repairs and execution of works are the responsibility of the assignee and the expenditures must be approved by the Budget Division (DIPRES) and be provided for in its budget.
- 1.11 The other organs of the State that have own assets (development corporations, housing and urban development units, regional governments, State-owned enterprises or enterprises with equity participation by the State, Municipalities, and universities) administer their assets in accordance with the mechanisms and instruments set out in their respective charters or legal statutes.
- 1.12 All State agencies need Ministry of Planning (MIDEPLAN) technical approval to purchase real estate, prior to seeking Ministry of Finance approval. MIDEPLAN's function is to evaluate the feasibility and economic and social merits of the project.
- 1.13 The Architecture Division of the Ministry of Public Works, Transportation, and Telecommunications (MOPTT) also participates as the technical counterpart in the entire process of purchase or construction of immovable assets as well as their repair and preservation. It conducts studies, participates in construction, and repairs public buildings built with fiscal resources as well as, optionally, buildings of institutions with own assets.
- 1.14 In short, because of the existing institutional arrangement, management functions are divided among a number of public agencies (MBN, DIPRES, MIDEPLAN, MOPTT). The legal framework lacks explicit policies that apply to all public buildings (State- and agency-owned) and that aim to improve economic efficiency in the management and use of these immovable assets.

3. Financial and accounting framework

- 1.15 The budget and accounting systems used by the Chilean public sector are defined in the State Financial Administration Act (Decree-Law 1,263 of 1975).

a. Budget system

- 1.16 In practice, the budget system is the information base used by public agencies for the administration of their resources, even though, with respect to public buildings, it places serious constraints on efficient management. This is due to the fact that the investments involved in the procurement and/or construction of buildings for public use are recorded as investment expenses in their entirety in the year in which they are executed (effective cost), which does not reflect the equivalent annual cost of the immovable asset. Moreover, expenses related to the use of immovable infrastructure are not allocated, so no payment is generated, for example, in the case of assigned properties. For their part, expenses related to maintenance and repair of facilities are recorded as current expenditures, without any link being established with the asset.
- 1.17 The budget system also is deficient with regard to the quality of the data it generates. The system does not provide data regarding the cost incurred for use of the building at the national level, by sector and institution. Nor does the system make it possible to link maintenance and repair costs to each building to determine whether the relation between the value of the building and the maintenance and repair costs is appropriate.
- 1.18 These weaknesses affect decision-making. With a price of zero for State-owned buildings, demand for such buildings for use by agencies is always unmet. As a result, public agencies limit themselves to requesting funds to invest in new buildings, instead of optimizing the use of existing ones. Because users do not participate in the benefits that efficient management of public buildings could conceivably generate, there is no incentive to rationalize their use.

b. Accounting system

- 1.19 The Office of the Comptroller General of the Republic is responsible for the nation's accounts. The accounting system has decentralized accounting records (173 independent accounting units in the central government, State-owned enterprises, and municipalities) and centralized overall information in terms of the financial statements. Accounts are kept on the basis of obligations, that is to say all resources and obligations are recorded at the time they are generated, whether or not they were collected or paid.
- 1.20 Public buildings are classified in the accounting system under the categories of depreciable immovable assets or assets to be incorporated (built or in process). The method for valuation of State assets is based on recording the procurement value of

the building, plus costs incurred in the procurement process, corrected annually for inflation.

- 1.21 The accounting system is primarily centered on the control of budget execution and therefore has the same weaknesses as the budget system in terms of public buildings. The reason for this is that, among other things, the costs associated with the buildings used by each government agency are not reflected in the accounts. While at the aggregate level the cost and depreciation of public buildings are recorded, such costs are not assigned to each user. In addition, it is possible that both the physical inventory and its valuation do not represent reality, since the government agencies do not maintain a registry and control system.
- 1.22 Another accounting system constraint is that the data recorded refer exclusively to the values of fixed assets at the aggregate level and revalued historical values, without including the cost of replacement or the alternative cost of leasing the buildings. While it is true that the nation's accounting is governed by the principle of obligations, maintenance and repair costs are recorded based on the actual cost criterion in the budget system, that is, they are recorded only when paid out, which makes it difficult to deliver building management information in a timely way to the various heads of government departments.
- 1.23 There is therefore a need to have a public buildings information system that makes it possible to record and assign to each user the entirety of the costs that the use of the building represents. Such a system should be part of the State Financial Management Information System (SIGFE), which is currently being developed (see Box I-1).

4. Public buildings inventory

- 1.24 The public buildings inventory is scattered over a series of cadastres, many of which are out of date and incomplete. The MBN has a national cadastre of State-owned buildings that started in 1994 with 8,700 entries, of which 3,080 involved buildings (the remainder are records of State-owned lots and armed forces buildings). There are few details in the inventory on assets that have not been subject to any type of administrative transaction (sale, leasing, transfer, etc.) and the numbering system is different from the domestic tax service, which makes unifying the information impossible. This cadastre includes a georeferenced data system that was applied to all regions except the Santiago metropolitan region. The inventory is digital in all the regions and manual in the Santiago metropolitan region. This cadastre offers the best opportunities for consultation. The public buildings that are administered by public agencies with own assets are not part of this cadastre.
- 1.25 The MOPTT has an inventory of public buildings put together at the request of the MBN in 1994, which covered all buildings with a function related to the government agencies (excluding defense and education-sector buildings), including

State- and agency-owned assets. This cadastre contains 5,086 records. In the late 1990s, the MOPTT updated the cadastre of public buildings in downtown Santiago, which was updated again in 2001. This survey included more detailed information on public buildings, such as occupation density, the per m² value, and condition. One important aspect of this last update, which covered over 500 buildings, is that it reflected a variation of almost 40% in changes of location and uses over the previous survey.

- 1.26 There are also smaller registries put together recently by ministries or departments for their own purposes. All these inventories are important inputs for the creation of an up-to-date national register that will provide pertinent data for decision-making in the management of public buildings.

B. The country's strategy in the sector

- 1.27 Since the 1980s, Chile has been implementing structural political and economic reforms that redefined the role of the State, promoted a more open economy, and maintained strict fiscal and monetary discipline. In the area of public administration, these policies have led the government to achieve sustained surpluses in the public accounts, maintain a smaller civil service headcount compared with international standards, and introduce innovative tools to make the workings of government more efficient.

- 1.28 The current administration is committed to deepening the modernization of the State initiatives. One of the initiatives made a priority by this administration is the development of the DIPRES management control system (see Box I-1) to improve budget management performance, by introducing the concept of management by results. This initiative is part of the government's strategy to grant more autonomy to the government agencies in budget spending in exchange for greater fiscal control over the effectiveness of program execution, which will be underpinned by greater availability of information

Box I-1

Management by results control system

The Government of Chile has developed a set of tools to improve budget management performance.

The system is coordinated by the Management Control Section of DIPRES and has the following main tools at its disposal: (a) a set of performance indicators, developed beginning in 1994, to measure the efficiency, effectiveness, quality, and financial viability of the programs and public institutions, which currently monitors 1,039 indicators at 100 agencies; (b) a program to evaluate outcomes and impacts of public programs, begun in 1997, which has evaluated 134 programs; and (c) a competitive fund, started in 2001, to provide funding for new programs or for the reformulation or expansion of existing programs.

All these management control programs have been incorporated into the budget cycle, so that the recommendations from evaluations or the fulfillment of performance targets become conditions for allocations and spending.

The management of immovable assets is one of the few management areas that have not been incorporated into the control system. This program will make it possible to include this aspect of management in the existing system.

through SIGFE (see Box I-2 below).

- 1.29 In general, this program is consistent with the country's modernization of the State objectives and, specifically, will make it possible to add to the management control system the monitoring of the results of public immovable asset management and will provide inputs for SIGFE's fixed assets module.

C. Strategy of the Bank in the country and sector

- 1.30 The Bank's strategy with Chile is consistent with the government's program. Its main objectives are to help boost the country's competitiveness; enhance social and regional equity; improve the population's quality of life, with emphasis on the most vulnerable groups; and modernize the workings of government, including strengthening the ties between civil society, the State, and the private sector. The proposed operation is consistent with the aforementioned strategy since it will help improve the quality and efficiency of public buildings management in Chile by introducing management tools, improving information, and putting forward proposals for revision of the institutional and regulatory framework. The Bank's support for the country in this area will make it possible to draw on the most advanced international experience on the subject of public assets and to develop a methodology for intervention that may be useful to other countries in the region.

1. Coordination with other official development institutions

- 1.31 The World Bank is financing the public expenditure management project, a loan in the amount of US\$23 million approved in 2002 and executed by the Ministry of Finance (see Box I-2). One of the main activities financed by the program is the design and implementation of an integrated financial management system, SIGFE, at all centralized and decentralized government agencies by 2005.

Box I-2
State Financial Management Information
System (SIGFE)

The SIGFE project is part of the Public Expenditure Management Project with World Bank financing. The project finances the design and implementation of an integrated financial management system that includes the budget, accounting and treasury subsystems and the reform of complementary subsystems in public credit, investment, procurement, and fixed assets. The system will make it possible to maintain decentralized financial operations while strengthening centralized control instruments.

Currently, 29 line agencies are completing installation of the system. All 171 centralized and decentralized central government agencies are expected to have the system up and running by 2005.

- 1.32 This program will provide the inputs for SIGFE's fixed assets module, by financing the establishment of an inventory of public buildings and including information in addition to financial data, to make it possible to monitor indicators for public buildings management.

2. Lessons learned

- 1.33 Through technical-cooperation operation ATN/UE-8177-CH, the Bank financed a study on international best practices in this area, which has provided a general outline of the reforms carried out by Australia, Canada, New Zealand, and, more recently, France to introduce efficiency and quality criteria into the management of public buildings. While the reforms undertaken by each country have characteristics specific to each and are at various stages of implementation, three common elements can be identified that have been taken into account in the design of this program.
- 1.34 The first common element is that public buildings management reform, particularly in the case of the Anglo-Saxon countries, was conducted in a broader context of modernization of the State initiatives, with a view to making public spending more efficient. To this end, the countries sought to make the cost of fixed assets explicit in government program production costs. This led to a policy that introduced a charge for real property in the portfolios of each government agency (in the case of Australia and New Zealand) and a policy of disposal of properties that did not achieve a floor return or did not have a clear function in the government's programs. For properties kept in the portfolio, tools were developed to measure the efficiency and quality of their use, either through accounting and budget systems that analyze how these assets impact on the costs of government programs, as in the case of New Zealand and Australia, or through strategic planning and the establishment of performance indicators for the property portfolio, as in the case of Canada.
- 1.35 Another common element in the public property management reforms involves the institutional area. While historical trends in each country determined different institutional solutions, they have the following characteristics in common: (i) the function of formulating policy and following up on and monitoring results was maintained at the central levels of government, primarily the Finance Ministry; (ii) the function of managing public buildings was decentralized to the line departments, which were given greater autonomy and resources to make decisions regarding the property; and (iii) specialized services for design and construction and management of property and real assets were strengthened, created, or outsourced, all in a competitive environment.
- 1.36 The third common aspect of the reforms in public property management has to do with the improvement in the information system. This has occurred through the adjustment of financial and accounting systems to effectively monitor public buildings management, as in the case of Australia and New Zealand. In other cases, the improved information came from the development of a complete inventory of public buildings with data on the state of maintenance of the buildings, the market value of the property, the occupation density, and the occupancy rate, among others, as in the case of Canada. The information systems enabled these countries to

make strategic decisions regarding the portfolio and to monitor the efficiency and quality indicators identified by the policies.

D. Program strategy

- 1.37 The program's strategy is to develop a system of economic incentives to encourage the government departments to manage their buildings more efficiently. As international experience shows, the objective is to make the cost of the public buildings explicit and introduce tools to control efficiency in the use of these assets. DIPRES, as the office responsible for overseeing the efficient use and assignment of public resources through the use of financial management systems and tools, programming, and management control, is the appropriate unit to introduce and manage this system of incentives, which will be linked to the budget cycle. The strategy pursued by the program—to keep building management decentralized while strengthening the control systems at the centralized levels—is consistent with best international practices in property management and with Chile's modernization of the State strategy.
- 1.38 To implement the system of incentives, DIPRES will need up-to-date information on the size, characteristics, use, and equity and book value of the public buildings. The program will finance the taking of an inventory of public buildings and the migration of data to SIGFE to guarantee access to and maintenance of the inventory and monitoring of management indicators. This inventory has taken into account the lessons learned in Canada, which is the most advanced country in terms of having a centralized, complete, and up-to-date inventory of public real property. The inventory and management indicators will allow DIPRES to identify inefficiencies and commit the government departments to rationalizing their use of space.
- 1.39 In the long term, the sector needs institutional and regulatory reforms that go beyond the area of competence of the Ministry of Finance and that require a much broader consensus-building process with all the institutions involved. The program will support this process by financing studies to prepare and build consensus on proposals. By the time execution of this program is completed, the country should have a long-term institutional and regulatory proposal for public buildings management that is politically, technically, and institutionally viable.

II. THE PROGRAM

A. Objectives

- 2.1 The goal of the program is to make the central government's management of public buildings more efficient. To achieve this goal, the program's objectives are to design and implement mechanisms aimed at establishing incentives for central government agencies to more efficiently manage the public buildings used for the functions of government.

B. Program structure

- 2.2 To achieve its objectives, the program will finance three components: (i) economic management model for public buildings; (ii) public buildings inventory; and (iii) studies for the regulatory and institutional framework. Program administration, monitoring, and evaluation will also be financed.

1. Economic management model for public buildings (US\$600.000)

- 2.3 The objective of the component is to establish incentives to promote more rational management of public buildings. The program will finance the introduction of a system for allocating the costs related to the use of public buildings to all central government agencies and the application of a public buildings management model in three pilot agencies. After the pilot phase has been completed, the results will be evaluated and the rest of the public agencies will gradually be incorporated into the new management system.
- 2.4 The management model is based on incentive mechanisms for the participating agencies that use public buildings, which is connected to a system of management indicators that measure efficiency in the use of the buildings. Some of the management indicators that could be included in this model have been identified on a preliminary basis, which are based on the following main aspects:
- a. *Overall use*—percentage of total occupied square meters with use equal to or below the preliminary target of 15 m² per employee.
 - b. *Internal efficiency*—percentage of total occupied square meters assigned to uses that generate value added (customer service, library, wellbeing, laboratories, offices, and services). Uses that are not considered to generate value would include food services, storerooms, archives, parking facilities, and sports facilities.
 - c. *Land*—percentage of reduction in the vacant lot surface area in urban zones.

- d. *Quality of user services*—percentage of m² of user services areas with a peak m²/user-hour of between four and five.
 - e. *Construction quality*—percentage of total m² that meet specific construction quality standards.
 - f. *Condition*—average annual spending per m² on routine building maintenance; power and water use in the building; and percentage of total m² in good condition.
 - g. *Overall costs*—average usage value of the public building per employee (development unit/employee/year); annual percentage of investment in rehabilitation in respect of the total value of the building; and amount of investment on net variation of the surface area of the public building.
 - h. *Budget process*—percentage of public building budget requests that comply with improved evaluation methodology and annual work load (man-hours) used to process public building budget requests.
- 2.5 To meet these objectives, the component will finance consulting services to help accomplish the following main activities: (i) formulation of the policy on incentives for public buildings management and analysis of the fiscal impact; (ii) establishment of the methodology for allocating costs and identification of management indicators and performance standards; (iii) implementation of incentives in pilot institutions; (iv) evaluation of results of the pilot phase and final design of the model; (v) gradual application of the incentive system at the remaining central government agencies; (vi) risk analysis and definition of a strategy for public building insurance; and (vii) dissemination of information and training for employees of DIPRES and of the other central government agencies.

2. Public buildings inventory (US\$1.7 million)

- 2.6 The objective of the component is to develop a public buildings inventory that will provide information for efficient management of the buildings by central government agencies, consolidate information for the various public and private stakeholders, and expeditiously provide transparent and reliable information to the citizenry. The inventory will feed SIGFE's auxiliary system for fixed assets, while maintaining decentralized operation and providing centralized technical and financial data to allow for the monitoring of public buildings management indicators.
- 2.7 To meet this objective, consulting services will be financed for the following activities: (i) identification of the data fields for the SIGFE auxiliary system for fixed assets; (ii) establishment of the public buildings inventory; (iii) the transfer of data from the inventory to the SIGFE auxiliary system or development of an auxiliary system; and (iv) the development of procedures manuals for updating

information related to public buildings and training for employees of central government agencies.

2.8 The inventory could contain the following data:

- a. General characteristics of the property (location, area of land, built area, condition, etc.)
- b. Legal background and proprietary register
- c. Use (type of use, area used by each agency or institution, number of people using it)
- d. Tenure (agency-owned, assigned, leased, etc.)
- e. Value (historical value, market value, taxation value, depreciation, budgeted cost of use, lease value)
- f. Building management, maintenance, and repair costs.

2.9 In terms of coverage, the inventory will include all properties used for central government functions, whether State-owned, belonging to agencies with own assets, or leased from private owners. These properties include buildings and lots located in central urban areas.

3. Studies for the regulatory and institutional framework (US\$700,000)

2.10 The component's objectives are to: (i) conduct the studies and activities necessary for the design of a suitable regulatory and institutional framework for the efficient management of public buildings; and (ii) implement a plan for building consensus on the program's initiatives with agencies that make up the sector and disseminating information on them. This component will finance: (i) studies on the legal system covering central government properties, institutional options for management, and legal, regulatory, and systems tools needed for their implementation; (ii) missions to countries that have developed best practices on the subject of property management; and (iii) workshops to disseminate the proposals analyzed and to train employees.

4. Program administration, monitoring, and evaluation (US\$600,000)

2.11 In addition, the program will finance administration costs, including costs related to the operation of the program coordinating unit (PCU) and the monitoring and evaluation activities.

C. Cost and financing

- 2.12 The total cost of the program is estimated at US\$4 million, of which US\$3 million will be financed with an Ordinary Capital loan from the Bank and US\$1 million from the local counterpart. Table II-1 below shows a breakdown of program costs.

Table II-1
Costs (US\$000)

Components and activities	IDB/OC	Local	Total	%
1. Economic management model	420	180	600	15%
1.1 Formulation, design, and implementation (pilot)	140	60	200	
1.2 Evaluation of pilot and final design of system	70	30	100	
1.3 Dissemination and training	70	30	100	
1.4 Risk analysis and insurance strategy	140	60	200	
2. Public buildings inventory	1,190	510	1,700	43%
2.1 Data fields for SIGFE	70	30	100	
2.2 Establishment of inventory	980	420	1,400	
2.3 Transfer of data to SIGFE	55	25	80	
2.4 Procedures manual and training	85	35	120	
3. Studies for the regulatory and institutional framework	480	220	700	18%
3.1 Definition of institutional framework	70	30	100	
3.2 Design and implementation of information system	140	60	200	
3.3 Support for implementation of institutional framework	200	100	300	
3.4 Reform of legal framework for public buildings	70	30	100	
4. PROPEF	150	0	150	4%
5. Program administration	450	50	500	13%
6. Monitoring and evaluation	70	30	100	3%
7. Financial costs	240	10	250	6%
7.1 Interest	240	0	240	
7.2 Credit fee	0	10	10	
7.3 Inspection and supervision	0	0	0	
Total	3,000	1,000	4,000	100%
Percentages	75%	25%	100%	

- 2.13 The following terms and conditions will apply: (i) LIBOR interest rate; (ii) credit fee of 0.25% on undisbursed loan amounts; (iii) inspection and supervision fees of 0% of the total loan; (iv) maximum disbursement period of 3.5 years; (v) grace period of 3.5 years; and (vi) 15-year amortization period.
- 2.14 The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department

recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.⁴

⁴ In no case will the inspection and supervision fee exceed, in a given six-month period, the amount that would result from dividing 1% of the loan amount by the number of six-month periods in the original disbursement period.

III. PROGRAM EXECUTION

A. Execution framework

- 3.1 The borrower will be the Republic of Chile and the program will be executed by the Ministry of Finance, through the Budget Division (DIPRES), which will have direct responsibility for administration, execution, coordination, and control of the program.
- 3.2 To fulfill its functions, DIPRES will set up a program coordinating unit (PCU), which will be responsible for program execution and administration vis-à-vis the Bank and will have the following functions: (i) prepare the annual work plans, based on the Bank's format; (ii) conduct the procurement processes and contracting of goods and services provided for under the program, activities that will be carried out in accordance with the Bank's rules and procedures; (iii) prepare disbursement requests and expense vouchers; (iv) create and maintain detailed accounting and financial records for the program; (v) prepare and present the program's financial reports; (vi) prepare and present the program's audited financial statements; (vii) coordinate and supervise the technical and operational aspects of program component execution; (viii) prepare any other reports as required; and (ix) administer the program's monitoring and evaluation system.
- 3.3 The PCU will be comprised of the program's executive director and an advisor, both DIPRES employees assigned to the program to fulfill these functions, and three outside consultants as follows: (i) a specialist in property management; (ii) an administrative/financial specialist; and (iii) a part-time procurement specialist for at least the first year of program execution. In addition, the PCU will have resources to hire specialists to support specific activities. The program's executive director will be appointed by the Budget Director. *The appointment of the program's executive director and the hiring of the administrative-financial and property management specialists will be a condition precedent to the first disbursement of the program.*
- 3.4 Within six months of the entry into force of the contract, a program executive board (PEB) will be set up and will consist of seven members: four DIPRES representatives; one adviser from the Ministry of Finance; one representative from the MBN; and one representative from the Architecture Division of the Ministry of Public Works, Transportation, and Telecommunications. The PEB's main functions will be as follows: (i) provide policy guidance for program execution; (ii) approve the regulations for its operation; (iii) approve changes in the program's Operating Regulations; (iv) approve annual work plans; (v) take notice of progress reports; (vi) review and approve the program's midterm and final evaluations; and (vii) ask the PCU for any reports it deems necessary.

B. Operating Regulations

- 3.5 Program execution will be governed by Operating Regulations that will establish the basic rules and procedures for execution of the program components. The regulations will set out the obligations and functions of the executing agency and participating units, allocation and use of resources, and eligibility criteria, and will indicate procedures for the selection and hiring of consultants, disbursements, records, internal controls, reports, and evaluation. *The executing agency's implementation of the Operating Regulations, as agreed upon with the Bank, will be a condition precedent to the first disbursement of the program.*

C. Program execution

- 3.6 All program components will be executed by the PCU, which will submit any proposals that have implications for the public buildings management policy to the PEB for validation prior to their implementation.

1. Economic management model for public buildings

- 3.7 In the first year of program execution, consultants will be engaged to prepare the conceptual definition of the economic incentives policy for public buildings management and the analysis of fiscal impact, to determine the methodology for allocating costs and the management indicators and performance standards, and to implement the incentive system on a pilot basis at three central government agencies to be identified by the executing agency. *A special condition for execution will be the presentation, within 12 months of the entry into force of the contract, of a report that indicates the three agencies in which the new economic management model will be applied on a pilot basis. The report is to include benchmarks for the management indicators, to be agreed upon with the Bank, for the three pilot agencies.*
- 3.8 In the second year of program execution, an evaluation of the outcomes of the pilot phase will be commissioned as well as the proposal for adjusting the management model for its final and overall implementation, including the final decision on the indicators to use, the final review of the strategy and overall implementation plan, and the drafting of instructions and manuals needed for the operation, monitoring, and control of the incentive system. By the end of year two, and once the establishment of the public buildings inventory has been completed, consulting services will be engaged to analyze the risk and define a strategy for insurance of public buildings.
- 3.9 In the third year, the system for allocating costs for the use of public buildings to all central government agencies will be applied and use of the management indicators will commence according to the previously described implementation plan will

begin. Consulting services will be engaged to train pertinent professionals and disseminate the economic management model among central government agencies.

2. Public buildings inventory

- 3.10 In the first year of program execution and once the public buildings management indicators have been defined on an initial basis, consulting services will be engaged to identify data fields for SIGFE's auxiliary system for fixed assets, in addition to financial data, that will make it possible to monitor the management indicators. DIPRES in turn will include those data fields in the design of the SIGFE auxiliary system or will propose an alternative solution to migrate data from the inventory to SIGFE.
- 3.11 At the end of year one of program execution, consulting services will be engaged to take a public buildings inventory. The survey will include State-owned buildings, those belonging to agencies with own assets, privately-owned, leased buildings, and lots located in central areas. The information available in the public buildings cadastre on hand in the MBN and the MOPTT will underpin the process, which will be supplemented by specific additional surveys (field survey to determine the physical characteristics and conditions of use of the properties, valuation to determine the commercial value of the property, legal survey to determine the tenure situation, etc.).
- 3.12 At the end of year two of program execution, the public buildings inventory data will be transferred to SIGFE's auxiliary system for fixed assets. In year three, procedures manuals will be prepared for updating information on public buildings and the employees of central government agencies responsible for updating, monitoring, and control will be trained.

3. Studies for the regulatory and institutional framework

- 3.13 Consulting services will be engaged and specific studies commissioned to define an institutional and regulatory framework for the management of public buildings. Once the initial outputs from the consulting services are available, the findings will be validated by the program's executive board and elaborated upon. Financing will be provided for travel to study pertinent international experiences. Once the institutional and regulatory framework has been defined, workshops will be held to disseminate the proposals and build consensus around them with the main agencies involved.

D. Procurement of goods and services

- 3.14 The selection and contracting of consulting services and the procurement of goods anticipated under the program will be carried out in accordance with the Bank's standard procedures in this area. International competitive bidding will be required for the procurement of goods involving amounts equal to or exceeding

US\$350,000. International open calls for proposals will be used for the procurement of consulting services the value of which is equal to or exceeds US\$200,000. Consulting services will be selected and engaged in accordance with the Bank's procedures spelled out in document GN-2220-10. The program does not call for the financing of works.

- 3.15 When the services of individual consultants involve amounts of up to US\$25,000 and those of consulting firms, up to US\$50,000, the Bank will conduct reviews of procurement and disbursements related to these contracts on an ex post basis, after three bid processes of each type have been conducted
- 3.16 **Maintenance.** The program is expected to finance mainly the procurement of a limited amount of computer hardware, for which standard maintenance for goods of this nature will be requested.

E. Revolving fund

- 3.17 DIPRES will open separate auxiliary accounts for the management of program funds from the loan and local counterpart. After all the conditions precedent to the first disbursement have been met, the Bank may advance resources from the financing to establish a revolving fund not to exceed 10% of the amount of the loan.

F. Execution period and disbursement timetable

- 3.18 The program is expected to be executed over a three-year period according to the following tentative disbursement schedule.

Table III-1
Disbursement timetable
US\$000

Source	Year 1	Year 2	Year 3	Total
IDB/OC	800	900	1,300	3,000
Local	200	300	500	1,000
Total	1,000	1,200	1,800	4,000
% / year	25%	30%	45%	100%

G. Internal control, financial statements, and auditing

- 3.19 The PCU will establish and maintain accounting systems that are satisfactory to the Bank and will maintain a proper filing system that is complete and up-to-date with all support documentation for the financial-accounting part of the program. Disbursements and payments under the operation will be made in accordance with the same procedures and rules established for the Administration and Finance Section of DIPRES.

- 3.20 DIPRES will present the program's financial statements to the Bank at the close of each fiscal year, together with supplementary information related to such statements, within 120 days after the close of the executing agency's fiscal year.
- 3.21 The statements and documents mentioned in the preceding paragraph will be presented with a report from the Office of the Comptroller General. The borrower or DIPRES, as applicable, will authorize the auditing agency to provide the Bank with any additional information it may reasonably require regarding the financial statements and audit reports issued.

H. Monitoring and evaluation

- 3.22 Program execution will be monitored through progress reports prepared by DIPRES and presented to the Bank within 60 days of the end of each calendar six-months period, based on the format and content agreed upon with the Bank. The progress reports will use as a reference the fulfillment of the commitments established in the program's logical framework (Annex III-1). The progress reports for the second calendar six-month period will include an annual work plan, which will present the budget for the following year, the activities to be accomplished and targets to be reached, and projections for the conclusion of the program.
- 3.23 The program will finance a midterm evaluation, to be conducted 24 months after the contract enters into force or when 50% of the loan proceeds have been committed, whichever comes first. This evaluation will assess the results achieved under each component and fulfillment of the targets established in the logical framework and will identify problems and bottlenecks that arose during execution, proposing actions to overcome them.
- 3.24 The program will also finance a final evaluation, to be conducted 30 months after the contract enters into force or when 90% of the loan proceeds have been committed, whichever comes first. This evaluation will look at program outputs and will identify lessons learned. It will analyze the following, among other aspects: (i) the variation in the average annual value of public building use per employee (development unit/employee/year) in the three pilot agencies; (ii) the net variation in the public buildings surface area (m^2 added less m^2 removed), measured on the basis of data from the inventory; (iii) the variation in the management indicators of the pilot agencies; and (iv) achievement of the other indicators that are part of the logical framework agreed upon with the Bank.
- 3.25 The terms of reference for the midterm and final evaluations will be agreed upon with the Bank and the consultants will be engaged according to the ex ante review procedure. The borrower will provide access to information should the Bank decide to use its resources to finance an ex post evaluation of the program.

IV. VIABILITY AND RISKS

A. Viability

- 4.1 Within the three years of its duration, the program includes implementation of a new public buildings management model, comprised essentially of incentives linked to a system of management indicators, in three pilot institutions. For purposes of the economic evaluation, the following institutions have been selected to verify the expected program impact: (i) Ministry of Public Works; (ii) Ministry of Housing and Urban Development; and (iii) Ministry of Health.⁵ The criteria used to determine which institutions would be involved in the analysis are shown in Table IV-1 below, that takes information from the cadastre for a sample of 10 public agencies in the municipality of Santiago.

Table IV-1
Management indicators at central government agencies

Ministry	Total M ² occupied	Number of employees	M ² / employee	Surplus M ² occupied(*)	Accum. % of total M ² occupied	Accum. % of surplus M ² (*)
Public Works	96,118	3,335	28.82	46,093	23.1%	27.4%
Housing & Urban Dev.	62,653	1,556	40.27	39,313	38.1%	50.8%
Public Health	67,581	2,601	25.98	28,566	54.3%	67.8%
Interior	33,930	1,290	26.30	14,580	62.5%	76.4%
Public Education	13,099	328	39.94	8,179	65.6%	81.3%
Agriculture	29,690	1,435	20.69	8,165	72.8%	86.2%
Transportation & Telecom.	26,270	1,228	21.39	7,850	79.1%	90.8%
Presidency	13,863	423	32.77	7,518	82.4%	95.3%
Planning & Cooperation	17,372	955	18.19	3,047	86.6%	97.1%
National Assets	4,157	78	53.29	2,987	87.6%	98.9%
National Defense	33,595	2,087	16.10	2,290	95.6%	100.3%
Secretary General-Pres.	7,623	436	17.48	1,083	97.5%	100.9%
Secretary General-Gov.	10,598	807	13.13	-1,507	100.0%	100.0%
Total	416,549	16,559	25,16	168,164		

Notes: (*):With respect to standard value of 15 m² per employee.

Source: Ministry of Public Works, Update of Public Buildings Cadastre for a sample of 10 public agencies in the Municipality of Santiago, 2001.

⁵ These would not necessarily be the pilot agencies.

- 4.2 The analysis of the three selected ministries' management indicators reflects that these ministries have the most surplus space with respect to the standard of 15 m² per employee,⁶ comprising two thirds of the total surplus. In addition, they comprise over half the total occupied surface area.
- 4.3 **Indicators and baseline.** The main management indicator considered for the economic analysis is the average annual value of public building use per employee. Consolidating the figures for the three ministries shows that in the base case, the centralized departments of these institutions have 226,352 square meters used by 7,492 employees and valued at US\$178.4 million.⁷ This means that the total baseline for these three ministries for the average annual value of public building use is 94.2 development units (DU)/employee, which is considered rather high with respect to the standard value of 60 to 65 DU/employee considered optimal since it means using the 15 m²/employee figure observed in private-sector buildings leased by the public sector.
- 4.4 Although the usage rate for the public buildings surface area was not included as an indicator in the logical framework, it is useful to analyze it. For the base case, the usage rate comes to 30.2 m²/employee, that is, double the value considered optimal (standard of 15 m²/employee).
- 4.5 **Performance targets.** Identification of the targets for the three-year period of the pilot project, associated with the two management indicators mentioned above, was based on an analysis that consisted in releasing certain buildings in the hands of these three ministries that are considered dispensable, since they are not directly associated with the operation of the departments and therefore do not generate value added. The space involved is assigned to the following uses: canteens (coffee shops), kitchens, guesthouses, sports facilities, parking facilities, and vacant lots. Removing from the analysis the space considered dispensable in each of the ministries included in the analysis yields the following:
- a. The average annual value of public building use for the institutions drops to 82.8 DU/employee, a drop of 12.2% with respect to the baseline and a significant narrowing of the existing gap with respect to the standard of

⁶ This standard value is similar to that observed in the baseline situation for leased public buildings and somewhat higher than that used in the private sector for the design of open floor space, which ranges between 10 m² and 12 m² per employee. This headroom is considered the standard, since it would be difficult to reach the private sector's use rate in existing public buildings because of space organization constraints in older buildings.

⁷ The value of the baseline situation was determined by adding the total amount paid by those departments that lease the buildings they use and an equivalent leasing value attributed to the departments that do not pay for the use of the space they occupy. This equivalent leasing value came from multiplying the square meters in these buildings by the average value of leasing "type B" office space in downtown Santiago in December 2003, of 0.33 DU/ m². A DU (development unit) equals approximately US\$28.

65 DU/employee, although there is still room for improvement of almost 20 DU/employee.

- b. The use rate falls to almost 22.3 m²/employee, which means a drop of 26.2% with respect to the base, getting significantly closer to the optimal figure of 15 m²/employee.

4.6 **Results.** Based on the assumption that the institutions analyzed may reduce public building space by the estimated amounts, the government's overall benefit would come to US\$24.1 million, equal to the total value of dispensable square meters, which could be obtained in the form of revenues from divestiture of buildings or from savings from the release of space in public buildings.

4.7 In addition to the value of the overall benefit of the program to the government, another factor worth noting is the savings that would be achieved with the goal adopted by the government of eliminating any net expansion in public building space (m² added less m² taken out) during the program execution period. While it will only be possible to measure this benefit with the new inventory and information system, it will be an important component in the overall benefit of the program to the State.

B. Environmental impact

4.8 The program is not expected to have negative environmental or social impacts. On the contrary, the program should have the following positive impacts: (i) it will support the development of standards for public buildings in component 3, promoting improvements in the physical facilities and rationalizing maintenance costs, including water and power consumption; and (ii) an insurance system for public buildings will be considered through the program's first component, which will identify the main risks facing public buildings, size the need for contributions to the system, and define a risk management strategy.

4.9 This operation does not qualify as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

C. Benefits

4.10 Central government agencies will be the main beneficiaries of the program, as they will acquire the tools to rationalize the use and management of public buildings.

4.11 The central government will have updated and pertinent information for decision-making on public building use. The development of management indicators and the use of incentives will promote more rational management of these assets. Lastly, the government will have a plan built on consensus to create a new institutional and

regulatory framework and rationalize the properties portfolio. All these tools will contribute to a more efficient use of the central government's public buildings.

D. Risks

- 4.12 The team has identified three risks for program execution. The first risk is that the government departments may not commit to the objectives of improving building management. Although this is a small risk in view of the departments' 10 years of experience with the management by results control system, this will be a new area of management and there could be resistance to the introduction of new methods for managing building use. This risk will be mitigated through the introduction of incentives to reward efficient building management (as mentioned in paragraphs 2.3 to 2.5) and through the ongoing provision of information and consensus-building around program activities. Moreover, the leadership at the Finance Ministry in this process is an important guarantee for participation by all the institutions.
- 4.13 A second risk for the operation is the relationship between SIGFE and the public buildings inventory financed under this program. The proposed program is expected to develop a public buildings inventory that will serve as input for the SIGFE fixed assets module, including data fields that were not anticipated and ensuring the suitable and pertinent transfer of data, which will require close coordination in the execution of both programs. This is not expected to cause a problem, since both programs are being executed by the same agency and SIGFE is on schedule. However, if special circumstances delay execution of SIGFE and the inclusion of data fields in the fixed assets auxiliary system cannot be ensured, the program will develop an independent system with an interface that will migrate the data once SIGFE is up and running.
- 4.14 The third risk involves long-term sustainability of the program's proposals. The Budget Division of the Ministry of Finance is the most appropriate unit to introduce incentives and ensure control of more efficient public buildings management. The 10 years of experience in the implementation of the management control system means that this unit has the experience and tools to head an initiative in this area. There is the risk, however, that the reforms will be limited to the financial/budget area and will not extend to the regulatory and institutional framework reforms required over the long haul. For this reason, the program includes a component under which institutional and regulatory options will be studied and a process will be initiated for the main institutions to work together to develop a consensus-based plan for rationalizing public buildings.

PUBLIC BUILDINGS MANAGEMENT PROGRAM (CH-L1006)

LOGICAL FRAMEWORK

Narrative summary of objectives	Indicators	Means of verification	Assumptions
End Make the central government's management of public buildings more efficient.	Use value of public buildings (DU/employee/year) in three pilot agencies cut by 10% in 2008. Net variation in surface area of public buildings (m2 added less m2 removed) remains below or equal to 0 in the 2006-2008 period.	Reports from the Budget Division (DIPRES) of the Ministry of Finance, from the State Financial Management Information System (SIGFE) or the auxiliary system for access to the inventory.	
Purpose Central Government users have the tools for more efficient management of the public buildings portfolio.	In 2007, 100% of the central government departments have access to the inventory and participate in keeping it updated. In 2007, the three institutions participating in the pilot phase internalize the incentive system in the management of their public buildings. In 2007, there is a proposed law to reform public buildings management.	DIPRES reports from the SIGFE system or from the auxiliary system for access to the inventory.	The government departments involved respond to the incentives and become more efficient in their property management.
Components 1. <u>Economic management model</u> . Economic management model for public buildings designed and implemented.	Incentives policy for management and analysis of fiscal impact presented in 2005. Methodology for allocating costs, standards, and management indicators defined in 2005. Management indicators applied and incentives implemented in three pilot institutions in 2006.	Program's progress reports. DIPRES instructions—budget process 2007.	The government departments are willing to participate and internalize the system.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	<p>Results of pilot phase evaluated and design of model completed in 2007.</p> <p>Allocation system of costs for the use of public buildings applied in 100% of central government departments in 2007 DIPRES instructions for execution in 2008 budget.</p> <p>Information disseminated and central government employees trained in new model in 2007 (number of employees, target to be identified in initial study).</p> <p>Risk analysis and design of insurance strategy for public buildings completed in 2007.</p>		
<p>2. <u>Public buildings inventory.</u> Inventory of public buildings established and in operation under SIGFE.</p>	<p>Data fields for SIGFE auxiliary system for fixed assets, that make it possible to monitor public buildings management indicators, identified in 2005.</p> <p>Public buildings inventory established in 2006.</p> <p>Transfer of data from inventory to SIGFE or development of auxiliary system done in 2007.</p> <p>Procedures manuals for updating data on public buildings drafted and SIGFE or auxiliary system users trained in 2007.</p>	<p>Program's progress report.</p>	<p>SIGFE auxiliary system for fixed assets includes fields necessary for public buildings management and is successfully implemented.</p>
<p>3. <u>Regulatory and institutional framework.</u> Proposal for a regulatory and institutional framework for public buildings management defined.</p>	<p>Institutional model for public buildings management defined in 2006.</p> <p>Legal framework presented to the Executive Branch in 2007.</p>	<p>Strategy paper presented in the program's progress report.</p> <p>Proposed law or other legal instrument presented to Executive Branch.</p>	<p>There is consensus and political will to effect institutional transformation.</p>

TENTATIVE PROCUREMENT PLAN

MAIN PROCUREMENT ITEMS	SOURCE OF FINANCING	TOTAL AMOUNT (thousands)	PROCUREMENT METHOD	ESTIMATED DATE
Component 1: Economic management model				
Consulting services for policy design, management system design, and pilot phase implementation (F).	70% IDB 30% Local	US\$200	CB	2005
Consulting services for evaluation of the pilot phase and final design of the system (F).	70% IDB 30% Local	US\$100	CB	2006
Consulting services for dissemination and training of central government employees (F).	70% IDB 30% Local	US\$100	CB	2007
Consulting services for risk analysis and formulation and implementation of building insurance strategy (F).	70% IDB 30% Local	US\$200	CB	2007
Component 2: Public buildings inventory				
Consulting services for definition of data fields for the SIGFE auxiliary system for fixed assets (F).	70% IDB 30% Local	US\$100	CB	2005
Consulting services to gather data for public buildings survey (F).	70% IDB 30% Local	US\$1,400	ICB	2005/2006
Consulting services for transfer of data from inventory to SIGFE (F).	70% IDB 30% Local	US\$80	CB	2006
Consulting services for development of procedures manual and for employee training (F).	70% IDB 30% Local	US\$120	CB	2007
Component 3: Studies for the regulatory and institutional framework				
Consulting services for institutional framework design (F).	70% IDB 30% Local	US\$100	CB	2005
Consulting services for design and implementation of information system for public buildings management (F).	70% IDB 30% Local	US\$200	CB	2005
Consulting services to support implementation of new institutional framework (F/I).	70% IDB 30% Local	US\$300	CB	2006
Consulting services for reform of legal framework for public immovable assets (F).	70% IDB 30% Local	US\$100	CB	2007
Administration, monitoring, and evaluation				
Individual consultants for program coordinating unit (I).	90% IDB 10% Local	US\$500	CB	2005
Consulting services to devise monitoring system (I).	70% IDB 30% Local	US\$10	CB	2005
Consulting services for midterm and final evaluation (F).	70% IDB 30% Local	US\$90	CB	2006/2007

CB – Competitive bidding; ICB – International competitive bidding; F – Firm; I – Individual consultant.